

## Sowing the Seeds for Future Success

The future depends . . . . .  
on what we do in the present.

Mahatma Gandhi

Global securities markets over the past 15 months could be described as nothing short of extraordinary. The ensuing financial and economic events that occurred between October 2008 and the end of December 2009 would have been inconceivable to an observer entering 2008. Bankruptcies, bank failures, corporate bailouts, collapse of the U.S. housing market, Ponzi schemes, implosion of international stock markets and plummeting interest rates culminated in the worst global economic recession and breakdown of consumer and business confidence since the onset of the 1929 economic depression.

Interestingly, the past 15 months were initially characterized by growing and excessive shock and panic, unusual media fear-mongering, plunging U.S. dollar, bankruptcies, et al. This traumatic period climaxed in a momentous mid-March 2009 stock market bottom which spawned one of the greatest worldwide stock market recoveries from April to year-end 2009.

Looking ahead we must put the financial nightmare of 2008-2009 to bed. We must leave the past behind us as we sow the seeds for economic recovery and future financial success. Admittedly, this is a difficult endeavor as the lessons, events and scars of the past year will be indelibly imprinted on the present generation for years to come. Nevertheless, there are many positive economic factors starting to appear.

We believe 2010 should provide for excellent stock market returns amidst continued market volatility. Going forward, although there is a continued need for business and consumer repair, we foresee improved economic prospects and corporate earnings. A sustained economic rebound, however, will take time and patience. Furthermore, a slow but steady restoration of confidence is paramount since the fallout from the excesses of the past decade must be eradicated. Despite the prevailing global skepticism, worldwide economies are setting up a platform for the next extended economic cycle.

Our growing optimism is a function of a number of factors including: improving worker productivity with little wage inflation; pent up demand for goods and services by both business and consumers; massive liquidity and continued monetary stimulation at record low interest rates; a low U.S. dollar providing for relatively low-priced American goods and services; etc. In a nutshell, we are, in our opinion, gradually building a solid base for an extended 2010-2012 economic recovery. But notwithstanding our fundamentally cheerful financial outlook, we believe that portfolio managers' patience and resolve will be severely tested again. We expect, however, that the end result will be well worth the wait.



**ECONOMIC PERSPECTIVES****Slowly Turning the Corner**

Interestingly, economic data released over the past twelve months have been, at times, most contradictory, confusing and distracting. For instance, a number of statistics and leading economic indicators suggest that the North American economies are starting to recover from the worst economic downturn since the 1930's depression. The data include: rebounding Canadian home prices and sales activities; declining weekly U.S. initial unemployment insurance claims; generally positive corporate earnings results and expectations; recovering oil and gas prices; a gradual restocking of business inventories; improving Chinese economy; etc. On the other hand, a number of other indicators imply that the

North American economies remain in recession and that more negative fallout has yet to appear. This includes: rising unemployment; ballooning government spending deficits; increased U.S. home delinquencies and foreclosures; a looming sovereign debt crisis involving Dubai, Iceland, Greece; etc.

Overall, despite these conflicting economic statistics we believe that the worldwide economies are slowing turning the corner. Although a global recovery might be somewhat subdued it is our belief that we are gradually setting up for a slow but steady worldwide expansion for 2010-2012.

**INVESTMENT PERSPECTIVES****Being Very Selective**

With North American equity markets having made an incredible comeback from their mid-March 2009 price lows it is increasingly challenging for investment managers to uncover unrecognized and undervalued common shares. For instance, back in March we would review five prospective stocks and after considerable investigation we would select two or three. Today, in the aftermath of a tremendous stock market advance, we might select only one. The point is that while there may be the odd deep value stock, the market is no longer dirt cheap. In consequence, at this time, portfolio managers must be very disciplined and selective.

Additionally, we believe that there might be increasing pressures placed upon cash heavy managers to invest low interest-earning money market funds into common stocks to skew asset mix toward greater equity exposure. This event might push up stock prices to even greater overvalued levels. Accordingly, we believe that it would be prudent to trim back shareholdings on any further price strength to raise cash reserves. Then, on any significant market correction we would, once again, troll for selective undervalued stocks.

**PORTFOLIO PERSPECTIVES****Restocking Our Portfolios**

During the final three months of 2009 we continued to take selective profits and losses in various securities. While we have generally reduced the number of portfolio holdings through consolidation and raised our cash reserves, we have also added a number of deeply-undervalued small and mid-capitalization common shares. We expect these purchases to outperform fully-valued, larger capitalization equities over the next twelve months.

As a result, we have liquidated our holdings of George Weston, Nexen Inc., Talisman Energy, Cobra Electronics, Cost Plus Inc., John B. Sanfilippo, Tandy Brands, Challenger Wine Trust and Fortune REIT. In turn, we have purchased Pengrowth Energy, Com Dev International, High Liner Foods, Argonaut Gold, Open Range Energy and Midway Energy Corp.

With the ongoing tug of war between the investment optimists and pessimists there is considerable interest and importance placed upon each and every tidbit of fast-breaking economic and corporate news. In many cases the interpretation of this data appears to be causing considerable confusion and share price volatility. It is our view that a good deal of this news is simply unnecessary noise and is masking the fact that global economies and corporations are gradually climbing out of recession. The challenge to us as portfolio managers is to discern which data is significant and which is simply a red herring.

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The following is an excerpt from the April 2005 ABC Perspective

### *Noise*

*Noise proves nothing.  
Often a hen who has merely  
laid an egg cackles as if  
she has laid an asteroid*

**Mark Twain**

There is a lot of misinformation, irrelevant data or useless noise in the market place. Thanks to the popular media such as CNN, newspapers, radio, T.V., Internet, etc., investors are constantly bombarded by an incessant stream of clatter, much of which is not germane to effectual investment. Analogously speaking, this is similar to the proverbial red herring which is laid out to set the bloodhounds or in this particular case, investors, on a wild goose chase.

The challenge to market participants, I believe, is to block out all the non-essential information and to focus on the relevant facts. Unfortunately, this task is easier said than done since purveyors of information, whether they be stockbrokers, T.V. or radio newsreaders, presume that all knowledge is important. In reality, it is not so.

As an investment manager I can attest to the point of unnecessary noise. Like many portfolio managers, I am constantly peppered with telephone callers who claim to have some extraordinary spin or edge on a particular investment; in the majority of

cases they do not. My incoming emails include at least 500-600 entries a day and my inbox contains innumerable faxes and investment analyst reports. But limited time and reducing the risk of wandering on an irrelevant investment tangent force me to diligently skim through this investment flow to separate the inconsequential noise from that which is meaningful. One must, however, be careful. In one's haste to delete unimportant emails or to toss out a pile of worthless faxes, one may inadvertently throw out that one genuine piece of information that may lead to a "diamond in the rough."

In a nutshell, the task of screening and sorting out the good from the bad noise is quite challenging and all-important. It requires focus, perseverance and, at times, brutal frankness to those who deliver the noise. However, in the end, I believe the final result leads to effective, concentrated analysis and superior, long term investment returns.

**Irwin A. Michael, CFA**

## Fortress Paper Limited

Fortress Paper (TSX: FTP) is an international producer of security and specialty papers and wallpaper base. The Company's Landqart Mill, in Switzerland, produces security papers, which includes paper currency, passports, visas, cheques, share certificates and lottery tickets. The Landqart Mill has been the sole provider of banknote paper for the Swiss currency since 1979 and is one of only nine authorized suppliers of the Euro. The Dresden Mill, in Germany, produces non-woven wallpaper base that is sold to Eastern Europe and the former Soviet Union. Although global demand for wallpaper is declining, these markets are experiencing growth, especially in the non-woven segment.

Fortress Paper became a TSX-listed Company on June 28, 2007, after purchasing assets from Mercer International. Mercer, a European softwood and kraft pulp producer, divested the mills to focus on its pulp business. A Canadian entrepreneur, Chad Wasilenkoff, reviewed the assets, conducted due diligence and negotiated the transaction. Mr. Wasilenkoff then installed experienced European management, led by Dr. Alfonso Ciotola and Erich Sulser.

After reporting a relatively lackluster second quarter due to the global economic slowdown's impact on the sale of specialty papers, Fortress Paper is now firmly back on track. In the third quarter of 2009, the Company reported sales of \$51.0 million compared to \$43.7 million in the third quarter of 2008 and \$49.6 million in the second quarter of 2009. EBITDA was \$7.0 million in Q3/09 compared to \$6.2 million last year and \$5.7 million in Q2/09. Net income was \$3.5 million or \$0.34 per share compared to \$2.3 million or \$0.22 per share a year ago and \$1.9 million or \$0.19 per share in the prior quarter.

Examining the results more closely, the Landqart mill reported sales of \$24.0 million compared to \$20.9 million a year ago. Operating income improved to \$1.8 million from \$1.2 million in the comparable period. The results reflect strength in the security paper segment and more banknote sales than in prior quarters. At the Dresden mill, demand for wallpaper base has reached the highest level since the start of the economic downturn. The division's revenue increased to \$27.0 million compared to \$24.7 million and operating income was relatively stable at \$4.7 million compared to \$4.9 million in the third quarter of 2008. The small dip in operating income at Dresden could be explained by some product mix changes. Overall, we were quite impressed by the performance of both of the operating divisions.

Subsequent to the release of Fortress's solid results, the shares jumped almost 20% and currently trade at approximately \$10.00. This represents a relatively small premium to book value of \$8.08, which is justifiable given

the annualized return on average equity of 17.2% in the quarter. On an earnings basis, the shares are valued at 9.2 times 2009 consensus earnings and only 7.4 times 2010 consensus earnings. With the results public, we had the opportunity to meet with management in our offices. The discussion covered the Company's solid third quarter results and several key corporate and operational developments.

From our perspective, the most important near-term issue is the PM1 (Paper Machine 1) rebuild. Remember that the conversion of the PM1 machine to a banknote machine will boost capacity of the high margin product from 2,500 tonnes to 10,000 tonnes per annum. Management seemed certain that the financing arrangement would be announced shortly. The remaining points of negotiation surround various covenants and conditions, which management hopes to minimize. As per Company guidance, we expect that PM1 will be operational by January 2011. In fact, management suggested that they have already started "pre-selling" some of this capacity, which is a testament to their confidence.

Management also discussed their new "Durasafe" product, which has just become commercially available. Essentially, they have developed a banknote that contains a transparent polymer window that is resistant to counterfeiting. Although the Company has yet to receive any firm orders, several parties have examined the product, expressed interest and begun pricing negotiations. We believe that this innovation will command higher margins than traditional bank notes.

The final topic of discussion surrounded potential acquisitions. We would not be surprised to see them acquire one or more related businesses within the next six to eighteen months. Additional banknote capacity or technology related to embedded security features seemed to be the key areas of interest. Thankfully, with management's and other insider's large stake in Fortress Paper, we believe that they will be extremely patient and disciplined buyers.

Once the financing for the PM1 conversion is put into place and perhaps once an accretive acquisition is announced, we believe that the market will become more willing to put a high-tech or growth multiple on the stock. Banknote printing, entailing the in-house and patented development of advanced security features, is a relatively unique and high margin business. Management has already suggested that demand is robust. They have actually turned away some Euro orders in order to accommodate other central banks. This ensures the maximum number of potential clients to fill Fortress's additional capacity once PM1 becomes operational. All told, we are very impressed with the Company's positioning and outlook.

## Onex Corporation

Onex Corporation (TSX: OCX), founded in 1984, is a publicly-traded private equity firm and alternative asset manager. The team of investment professionals has completed more than 260 acquisitions totaling approximately \$43 billion. Since inception, they have generated a 29% compounded annual internal rate of return using a value-oriented, active investment strategy. The Company's team also manages approximately \$7 billion of third-party capital, which generates management fee income and earns a carried interest.

The structure at Onex is relatively unique. Publicly traded and private investments are held at both the corporate level and within the Company's funds alongside third party money. Current investments include public companies such as Celestica, Spirit Aerosystems, Emergency Medical Services, Skilled Healthcare and ResCare. Private investments include Sitel, Center for Diagnostic Imaging, Carestream, the Warranty Group, Hawker Beechcraft, Tube City, Allison Transmission and Husky Injection Molding. Notice the focus in the aerospace, healthcare, financial and industrial sectors.

Shares of Onex Corporation tend to strengthen when the Company monetizes one of its publicly-traded or privately-held investments. It validates management's successful track record and gives investors confidence in the private equity firm's portfolio. It also frees up capital that can then be redeployed into another potentially profitable investment. Notably, there have been several recent and significant transactions.

On March 30, Onex announced that a syndicate of underwriters had agreed to a bought deal for the Company's 12,956,885 trust units of Cineplex Galaxy Income Fund at a price of \$14.25 per trust unit. The timing of the issue was good, since going to the movies seems to be a relatively recession-resistant pastime. Gross proceeds of approximately \$184.6 million were essentially inline with our carrying value of the investment in our model, since we mark the position to market. Importantly, because Onex had tax losses available to shelter the capital gains, the Company did not incur any taxes on the transaction.

In August, Onex announced that it had sold part of its interest in Emergency Medical Services Corporation (NYSE: EMS). Essentially, 9.2 million Class A shares were sold in a secondary offering at US\$40 per share. Of the offering, Onex sold approximately 3.5 million shares, which represents roughly 29% of the Company's interest in EMS. This transaction crystallized an amazing six fold increase for Onex. Subsequently, OCX sold an additional three million shares of Emergency Medical Services Corp at US\$48.31 for proceeds of US\$151 million. In terms of investment return, the trade was completed at approximately seven times cost.

On the buy side, Onex has made an intriguing investment in Tropicana Resort and Casino. Tropicana had filed for Chapter 11 in May 2008 and Onex acquired more than US\$200 million of the principal amount of the Company's US\$440 million term loan that is secured against the casino in Las Vegas. The debt was acquired at a discount to par value and the plan of reorganization provides for the secured creditors to own 100% of the equity in the casino. Since Tropicana is an older property it will require additional capital to upgrade the 34-acre site, with 1,850 hotel rooms, a 61,000 square foot casino, 5 restaurants and an 850 seat showroom. However, given the economic downturn, now could be an excellent time to buy real assets on the cheap.

Valuing the stock is an exercise in sum of the parts analysis. Using cash at the parent level, the value of publicly-traded investments at market and the value of other investments at book implies a value of almost \$29.00 per share. Using a 20% holdco discount gives a floor net asset value of approximately \$23.00 per share. To this figure, we have to add value for the management fees and earned carry on third party capital. In the recent quarterly release, the Company reported that the current annualized rate of management fees on third-party capital is approximately US\$80 million, which "more than offsets the Company's operating costs". After deducting operating expenses and applying the same multiple as comparables, we calculate an additional \$6.00 in value. Our combined net asset value for Onex therefore ranges between \$29 with a 20% holdco discount and \$35 per share assuming no holdco discount.

Currently trading at \$24, about \$5 below the Company's net asset value (including the 20% holdco discount), we see good value in the stock. Management apparently agrees, having purchased 1,788,281 shares under a normal course issuer bid that expired on April 13, 2009, at an average price of \$26.70 per share. The NCIB was renewed and for the ten months ended October 31, 2009 Onex repurchased 566,660 shares at an average cost of \$22.49 per share.

The shares typically outperform when management either monetizes an asset or makes a new significant investment. Since both have recently occurred and sentiment in the credit and equity markets continues to improve, we expect the stock to continue to perform well. Bottom line: the Onex team is a proven money maker and we are willing to run with them in the current market environment. With the stock valued at a discount to NAV, it suggests that patient investors will be rewarded over time as the Company deploys its ample cash reserves.

## ABC Fully-Managed Fund (ABC FMF)

<b>NAVPS</b>	<b>\$ 7.0252</b>
<b>C.G. Dist.</b>	<b>\$ 0.000000</b>
<b>Inc. Dist.</b>	<b>\$ 0.007147</b>

*December 31, 2009*

### Objective

*ABC Fully-Managed Fund is a diversified Canadian balanced fund. While our long-term asset mix target is 50% fixed income and 50% Canadian equities, in practice, our portfolio mix of stocks versus bonds is quite flexible to take advantage of periodic investment opportunities.*

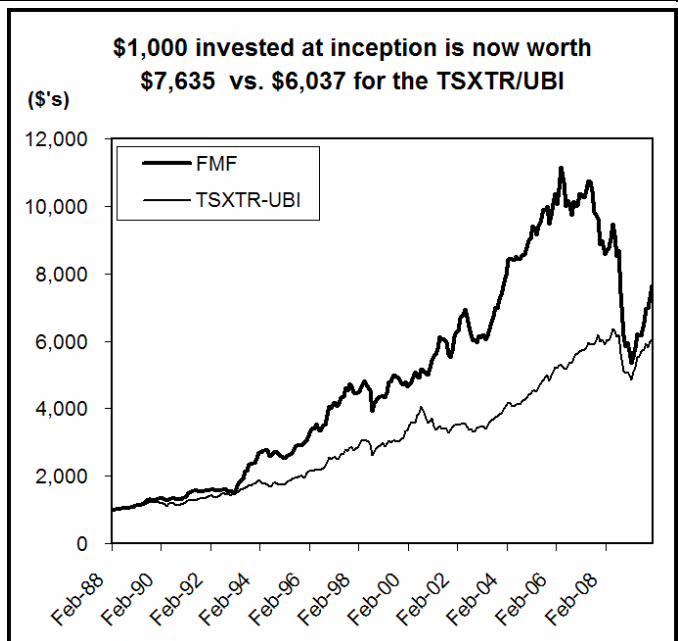
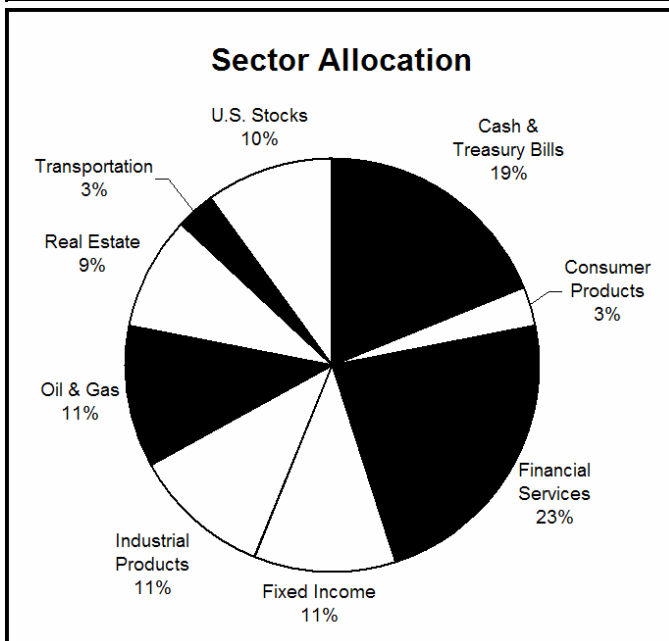
### *Performance of the Fund vs. the Benchmark*

Annualized Compounded Rates of Return			Annual Returns		
	ABC FMF (%)	TSXTR/UBI (%) **		ABC FMF (%)	TSXTR/UBI (%)**
1 Month	<b>4.51</b>	0.77	1989	<b>23.68</b>	17.20
Q4 2009	<b>9.40</b>	1.87	1990	<b>2.17</b>	-4.32
YTD	<b>27.90</b>	18.88	1991	<b>14.69</b>	17.35
1 Year	<b>27.90</b>	18.88	1992	<b>-1.48</b>	4.75
2 Year	<b>-7.75</b>	-0.09	1993	<b>64.35</b>	24.36
3 Year	<b>-8.69</b>	2.25	1994	<b>2.82</b>	-2.64
5 Year	<b>-3.18</b>	6.46	1995	<b>17.25</b>	17.97
10 Year	<b>4.74</b>	6.11	1996	<b>31.99</b>	19.5
15 Year	<b>7.45</b>	8.49	1997	<b>10.56</b>	12.22
20 Year	<b>9.13</b>	8.20	1998	<b>-2.02</b>	3.84
Since Inception*	<b>9.76</b>	8.58	1999	<b>10.37</b>	14.29
			2000	<b>8.31</b>	8.71
			2001	<b>17.62</b>	-2.96
			2002	<b>0.77</b>	-1.47
			2003	<b>25.52</b>	15.27
			2004	<b>15.89</b>	10.42
			2005	<b>12.47</b>	15.25
			2006	<b>-0.64</b>	11.00
			2007	<b>-10.55</b>	6.82
			2008	<b>-33.46</b>	-16.04
			2009	<b>27.90</b>	18.88

\*Inception date for the Fund was February 22nd, 1988

\*\*Benchmark consists of 50% of the S&P/TSX Composite Total

Return Index and 50% of the PC-Bond Universe Bond Index (UBI)



# ABC FUNDS

## *ABC Fully-Managed Fund, Statement of Investment Portfolio December 31st, 2009*

*all dollar amounts in thousands (cdn\$)*

*exchange rate used is 1.0483498973*

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>CASH -- 18.76%</b>			
106,498	Cash - CAD	106	106
(9)	Cash - USD	(0)	(0)
149,230	UBS Cash In Action Fund - CAD	14,923	14,923
1,920,220	RT CAP Cash In Action Fund - USD	2,258	2,013
<b>TOTAL CASH</b>		<b>17,287</b>	<b>17,043</b>

<b>FIXED INCOME -- 10.98%</b>			
2,167,000	Aecon Group Inc. 7.00%, 09/30/2014	2,167	2,335
3,500,000	Frontera Copper, 10%, 06/15/2010	2,909	2,860
4,500,000	Russel Metals, 7.75%, 09/30/2016	4,500	4,784
<b>TOTAL</b>		<b>9,576</b>	<b>9,978</b>

**COMMON STOCKS -- 70.26%**

<b>FINANCIAL SERVICES -- 22.59%</b>			
300,000	Dundee Corp., class A	1,921	3,639
9,400	E-L Financial Corp.	2,771	4,355
200,000	Equitable Group Inc.	3,745	4,250
175,000	Genworth MI Canada Inc.	3,308	4,743
150,000	Onex Corp.	3,492	3,540
<b>TOTAL</b>		<b>15,237</b>	<b>20,526</b>

**REAL ESTATE -- 8.54%**

2,125,000	Huntingdon Real Estate Inv. Trust	3,854	1,052
900,000	Lakeview Hotel Real Estate Inv. Trust	2,912	272
750,000	Lanesborough Real Estate Inv. Trust	3,389	608
175,000	Morguard Corp.	3,595	5,826
<b>TOTAL</b>		<b>13,749</b>	<b>7,757</b>

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>OIL &amp; GAS -- 10.98%</b>			
500,000	Daylight Resources Trust	4,001	5,095
750,000	Essential Energy Services Trust	4,678	818
400,000	Pengrowth Energy Trust	4,160	4,060
<b>TOTAL</b>		<b>12,839</b>	<b>9,973</b>

**INDUSTRIAL PRODUCTS -- 11.26%**

600,000	ATS Automation Tooling Systems Inc.	2,502	4,488
425,000	Canam Group Inc.	4,383	3,030
591,900	Exco Technologies Ltd.	950	1,184
750,000	Terravest Income Fund	5,894	1,530
<b>TOTAL</b>		<b>13,729</b>	<b>10,232</b>

**CONSUMER PRODUCTS -- 3.56%**

350,000	High Liner Foods Inc.	2,644	3,238
<b>TOTAL</b>		<b>2,644</b>	<b>3,238</b>

**TRANSPORTATION -- 3.07%**

225,000	Westjet Airlines Ltd.	2,515	2,788
<b>TOTAL</b>		<b>2,515</b>	<b>2,788</b>

**U.S. STOCKS -- 10.26%**

30,000	American National Insurance Co.	3,244	3,756
137,500	Babcock & Brown Air Ltd. ADS	3,168	1,296
75,000	Kansas City Life Insurance Co.	4,439	2,339
200,000	Seaspan Corp.	5,168	1,933
<b>TOTAL</b>		<b>16,018</b>	<b>9,325</b>

**TOTAL COMMON STOCK** **76,732** **63,838**

**TOTAL PORTFOLIO** **103,595** **90,858**

ANY RATES OF RETURN PRINTED IN THIS PUBLICATION ARE FOR HISTORICAL PURPOSES ONLY AND SHOULD NOT BE CONSTRUED AS FUTURE PERFORMANCE.

# ABC FUNDS

## ABC Fundamental-Value Fund (ABC FVF)

December 31, 2009

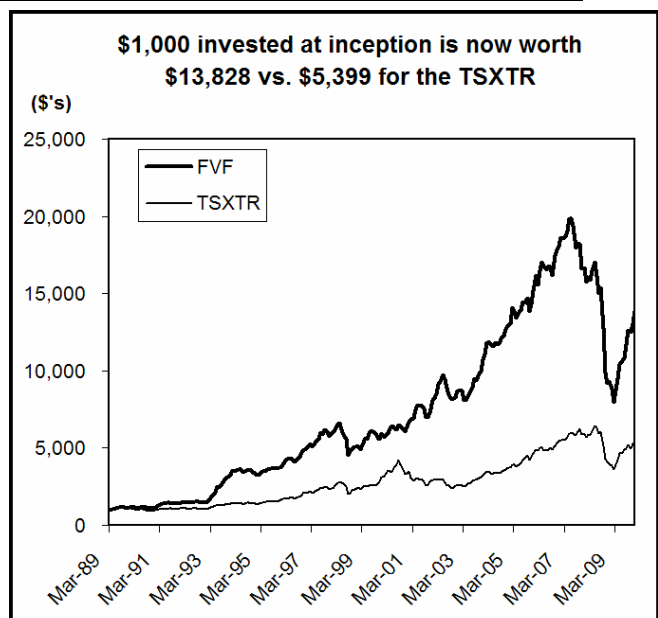
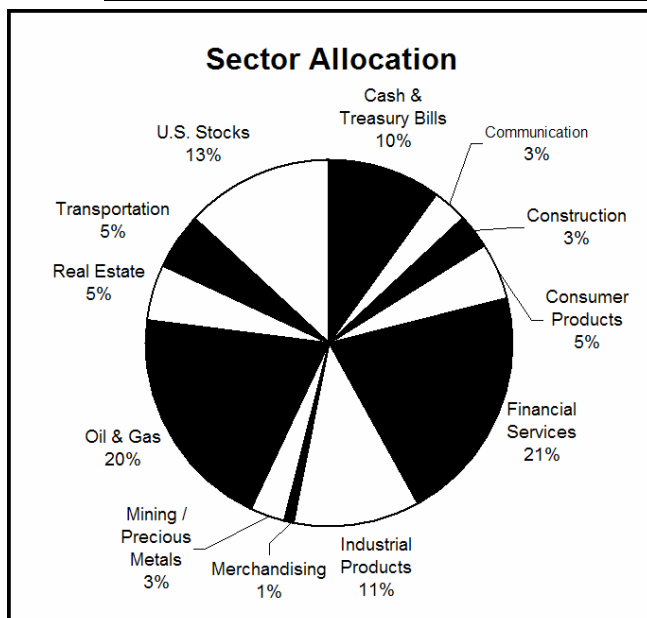
<b>NAVPS</b>	<b>\$14.6044</b>
<b>C.G. Dist.</b>	<b>\$ 0.000000</b>
<b>Inc. Dist.</b>	<b>\$ 0.000000</b>

ABC Fundamental-Value Fund seeks out fundamentally undervalued Canadian equities. Our extensive "value research" style attempts to ferret out overlooked and out of favour Canadian equities. With these discerning selections we cobble a diversified portfolio of small, medium and large capitalization Canadian value stocks. When fully invested and having discovered new, fundamentally attractive securities, our sell discipline forces us to cull our portfolios to liquidate the most expensive holdings.

### Performance of the Fund vs. the Benchmark

	Annualized Compounded Rates of Return		Annual Returns	
	ABC FVF (%)	TSXTR (%)**	ABC FVF (%)	TSXTR (%)**
1 Month	<b>5.94</b>	2.93	1990	<b>-1.98</b> -14.80
Q4 2009	<b>9.49</b>	3.86	1991	<b>22.92</b> 12.02
YTD	<b>48.09</b>	35.05	1992	<b>4.26</b> -1.43
1 Year	<b>48.09</b>	35.05	1993	<b>121.75</b> 32.80
2 Year	<b>-8.89</b>	-4.88	1994	<b>3.03</b> -0.63
3 Year	<b>-8.55</b>	-0.21	1995	<b>11.08</b> 14.83
5 Year	<b>1.22</b>	7.66	1996	<b>31.75</b> 28.35
10 Year	<b>8.80</b>	5.61	1997	<b>20.35</b> 14.98
15 Year	<b>9.87</b>	9.29	1998	<b>-13.81</b> -1.58
20 Year	<b>13.12</b>	8.05	1999	<b>16.25</b> 31.71
Since Inception*	<b>13.50</b>	8.44	2000	<b>7.51</b> 7.41
			2001	<b>26.06</b> -12.57
			2002	<b>7.62</b> -12.44
			2003	<b>23.55</b> 26.72
			2004	<b>21.42</b> 14.48
			2005	<b>16.62</b> 24.13
			2006	<b>19.13</b> 17.26
			2007	<b>-7.86</b> 9.83
			2008	<b>-43.94</b> -33.00
			2009	<b>48.09</b> 35.05

\*Inception date for the Fund was March 20, 1989  
 \*\*S&P/TSX Composite Total Return Index (TSXTR)



# ABC FUNDS

## ABC Fundamental-Value Fund, Statement of Investment Portfolio December 31st, 2009

all dollar amounts in thousands (cdn\$)

exchange rate used is 1.0483498973

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>CASH -- 10.16%</b>			
2,646,170	Cash - CAD	2,646	2,646
505,768	UBS Cash In Action Fund - CAD	50,577	50,577
1,277,073	RT CAP Cash In Action Fund - USD	1,390	1,339
<b>TOTAL CASH</b>		<b>54,613</b>	<b>54,562</b>

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>INDUSTRIAL PRODUCTS -- 11.47%</b>			
3,000,000	ATS Automation Tooling Systems Inc.	12,837	22,440
2,825,000	Canam Group Inc.	29,455	20,142
2,250,000	Martinrea International Inc.	11,448	19,013
<b>TOTAL</b>		<b>53,739</b>	<b>61,595</b>

**COMMON STOCKS -- 89.84%**

**MINING/PRECIOUS METALS -- 3.48%**

<b>REAL ESTATE -- 4.68%</b>			
3,150,000	Huntingdon Real Estate Inv. Trust	5,903	1,559
708,600	Morguard Corp.	15,599	23,589
<b>TOTAL</b>		<b>21,502</b>	<b>25,149</b>

3,500,000	Argonaut Gold Inc.	10,500	12,250
1,750,000	Argonaut Gold Inc., warrants	0	840
3,250,000	Polaris Minerals Corp.	15,805	5,460
375,000	Polaris Minerals Corp., warrants	0	64
169,000	Whitemud Resources	1,334	79
<b>TOTAL</b>		<b>27,639</b>	<b>18,692</b>

**FINANCIAL SERVICES -- 21.01%**

**CONSUMER PRODUCTS -- 4.53%**

2,000,000	Dundee Corp., Class A	22,206	24,260
32,100	E-L Financial Corp.	9,053	14,870
1,100,000	Equitable Group Inc.	22,829	23,375
900,000	Genworth MI Canada Inc.	17,084	24,390
1,100,000	Onex Corp.	27,373	25,960
<b>TOTAL</b>		<b>98,545</b>	<b>112,855</b>

1,095,000	Andrew Peller Ltd., Class A	4,497	8,541
400,000	Arbor Memorial Services, Class B	5,339	9,700
657,700	High Liner Foods, Inc.	4,963	6,084
<b>TOTAL</b>		<b>14,799</b>	<b>24,325</b>

**OIL & GAS -- 19.69%**

**MERCHANDISING -- 0.53%**

24,000,000	Alange Energy Corp.	9,745	15,120
6,500,000	Anderson Energy Ltd.	22,593	7,540
128,800	Avenir Diversified Income Trust	1,442	631
3,280,000	Blackpearl Resources	16,728	8,331
2,500,000	Daylight Resources Trust	20,648	25,475
3,100,000	Essential Energy Services Trust	18,597	3,379
10,000,000	Ithaca Energy Inc.	18,743	14,700
4,500,000	Midnight Oil Exploration	16,398	4,500
1,250,000	Pengrowth Energy Trust	12,838	12,688
1,465,718	Precision Drilling Trust	27,947	11,213
12,698,500	Stratic Energy Corp.	15,796	2,159
<b>TOTAL</b>		<b>181,474</b>	<b>105,735</b>

503,500	Danier Leather Inc.	5,044	2,820
<b>TOTAL</b>		<b>5,044</b>	<b>2,820</b>

**COMMUNICATIONS -- 2.87%**

4,500,000	Com Dev International Ltd.	13,391	15,435
<b>TOTAL</b>		<b>13,391</b>	<b>15,435</b>

**CONSTRUCTION -- 3.49%**

1,250,000	Aecon Group Inc., common	13,263	18,750
<b>TOTAL</b>		<b>13,263</b>	<b>18,750</b>

**TRANSPORTATION -- 4.61%**

**U.S. STOCKS -- 13.47%**

2,000,000	Westjet Airlines Ltd., common	22,072	24,780
<b>TOTAL</b>		<b>22,072</b>	<b>24,780</b>

125,000	American National Insurance Co.	14,063	15,652
980,000	Babcock & Brown Air Ltd. ADS	22,468	9,236
725,000	Blackstone Group	17,538	9,972
385,000	Kansas City Life Insurance Co.	21,852	12,008
150,000	Pioneer Natural Resources Co.	8,835	7,575
860,256	Presidential Life Corp.	20,183	8,252
1,000,000	Seaspan Corp.	25,671	9,666
<b>TOTAL</b>		<b>130,610</b>	<b>72,360</b>

<b>TOTAL COMMON STOCK</b>	<b>582,078</b>	<b>482,496</b>
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<b>TOTAL PORTFOLIO</b>	<b>636,691</b>	<b>537,058</b>
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ANY RATES OF RETURN PRINTED IN THIS PUBLICATION ARE FOR HISTORICAL PURPOSES ONLY AND SHOULD NOT BE CONSTRUED AS FUTURE PERFORMANCE.

## ABC American-Value Fund (ABC AVF)

<b>NAVPS</b>	<b>\$ 6.1670</b>
<b>C.G. Dist.</b>	<b>\$ 0.000000</b>
<b>Inc. Dist.</b>	<b>\$ 0.000000</b>

December 31, 2009

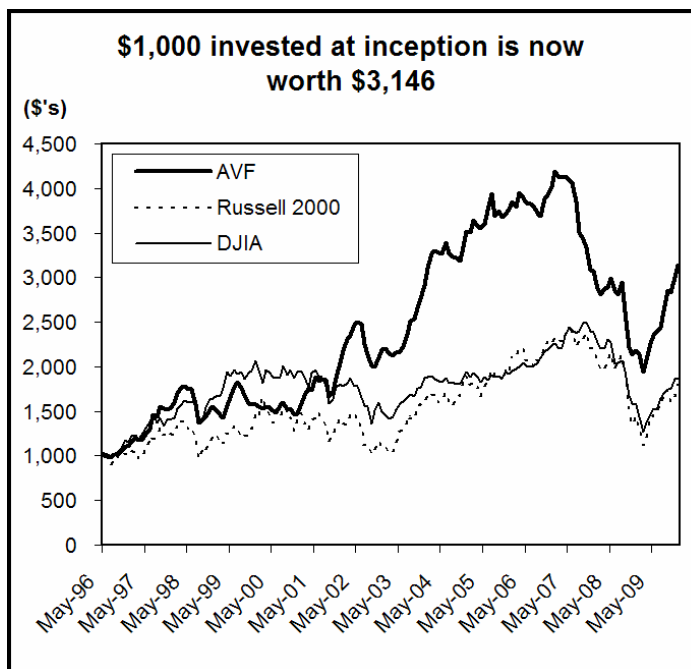
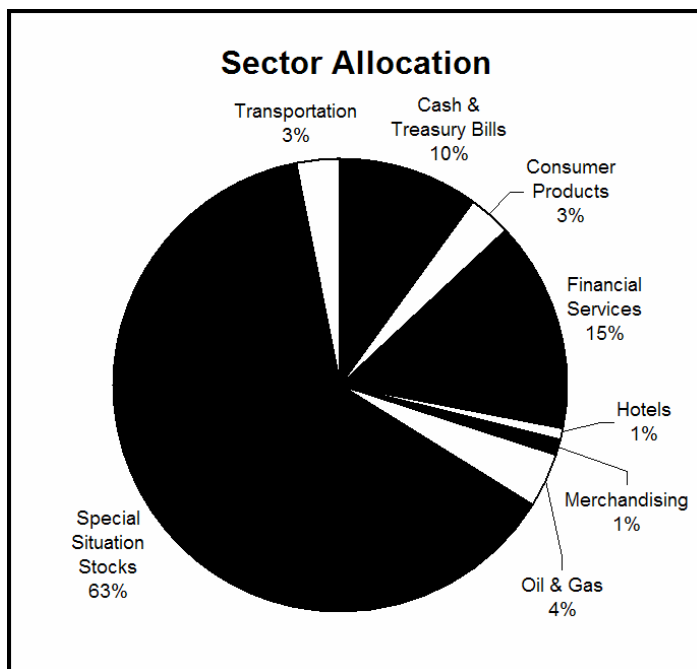
### Objective

ABC American-Value Fund searches out fundamentally undervalued American, special situation and foreign U.S. stock exchange-listed common shares. While using the same investment techniques as our two Canadian ABC Funds, the American market due to its sheer size provides us with extensive value opportunities.

### Performance of the Fund vs. U.S. Benchmarks

	Annualized Compounded Rates of Return			Annual Returns			
	ABC AVF (%)	Russell 2000 (%)	Dow Jones Industrials (%)	ABC AVF (%)	Russell 2000 (%)	Dow Jones Industrials (%)	
1 Month	4.74	7.88	0.80	1997	38.76	20.52	22.64
Q4 2009	10.30	3.49	7.37	1998	0.75	-3.45	16.10
YTD	44.15	25.22	18.82	1999	1.47	19.62	25.22
1 Year	44.15	25.22	18.82	2000	-6.66	-4.20	-6.18
2 Year	1.17	-9.64	-11.34	2001	39.52	1.03	-7.10
3 Year	-7.82	-7.40	-5.77	2002	6.91	-21.58	-16.76
5 Year	-2.19	-0.82	-0.67	2003	32.74	45.37	25.32
10 Year	7.17	2.17	-0.97	2004	20.85	17.00	3.15
Since Inception*	8.80	4.38	4.70	2005	7.16	3.32	-0.61
				2006	6.65	17.00	16.29
				2007	-23.46	-2.75	6.43
				2008	-29.00	-34.80	-33.84
				2009	44.15	25.22	18.82

\*Inception date for the Fund was May 2, 1996



# ABC FUNDS

## ABC American-Value Fund, Statement of Investment Portfolio December 31st, 2009

*all dollar amounts in thousands (cdn\$)*

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>CASH -- 9.99%</b>			
38,289	Cash - CAD	38	38
66,403	UBS Cash In Action Fund - CAD	6,640	6,640
143,533	RT CAP Cash In Action Fund - USD	159	150
<b>TOTAL CASH</b>		<b>6,837</b>	<b>6,829</b>

**COMMON STOCKS -- 90.01%**

**FINANCIAL SERVICES -- 14.64%**

22,500	Amer. Natl. Ins. Co.	2,460	2,817
125,000	Blackstone Group	3,077	1,719
52,904	Kansas City Life Insurance Co.	3,030	1,650
325,000	PMA Capital Corp.	3,468	2,146
175,000	Presidential Life	3,728	1,679
<b>TOTAL</b>		<b>15,763</b>	<b>10,012</b>

**CONSUMER PRODUCTS -- 3.53%**

225,000	Flexsteel Industries	3,842	2,413
<b>TOTAL</b>		<b>3,842</b>	<b>2,413</b>

**MERCHANDISING -- 0.40%**

254,613	Cost Plus Inc.	2,589	272
<b>TOTAL</b>		<b>2,589</b>	<b>272</b>

**TRANSPORTATION -- 3.59%**

137,500	Babcock & Brown Air Ltd. ADS	3,159	1,296
120,000	Seaspan Corp.	3,321	1,160
<b>TOTAL</b>		<b>6,480</b>	<b>2,456</b>

*exchange rate used is 1.0483498973*

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>OIL &amp; GAS -- 3.69%</b>			
50,000	Pioneer Natural Resources Co.	2,945	2,525
<b>TOTAL</b>		<b>2,945</b>	<b>2,525</b>

**HOTELS -- 1.09%**

300,000	Great Wolf Resorts Inc.	3,549	745
<b>TOTAL</b>		<b>3,549</b>	<b>745</b>

**SPECIAL SITUATION STOCKS -- 63.06%**

200,000	Aecon Group Inc.	2,194	3,000
600,000	Argonaut Gold Inc.	1,800	2,100
300,000	Argonaut Gold Inc., warrants	0	144
550,000	ATS Automation Tooling Systems	2,424	4,114
750,000	Blackpearl Resources	3,825	1,905
475,000	Canam Group Inc.	3,375	3,387
300,000	Daylight Resources Trust	2,452	3,057
300,000	Dundee Corp.	2,024	3,639
1,000,000	Energold Drilling Corp.	1,958	2,550
112,500	Equitable Group Inc.	2,283	2,391
112,500	Genworth MI Canada Inc.	2,148	3,049
750,000	Maxim Power Corp.	2,030	2,764
100,000	Morguard Corp.	2,074	3,329
125,000	Onex Corp.	3,011	2,950
3,172,049	Phoenix Coal Corp.	5,210	983
550,000	Terravest Income Fund	3,775	1,122
212,500	Westjet Airlines Ltd.	2,378	2,633
<b>TOTAL</b>		<b>42,958</b>	<b>43,116</b>

**TOTAL COMMON STOCK 78,126 61,539**

**TOTAL PORTFOLIO 84,963 68,368**

ANY RATES OF RETURN PRINTED IN THIS PUBLICATION ARE FOR HISTORICAL PURPOSES ONLY AND SHOULD NOT BE CONSTRUED AS FUTURE PERFORMANCE.

## ABC North American Deep-Value Fund (ABC NADV)

<b>NAVPS</b>	<b>\$ 5.5934</b>
<b>C.G. Dist.</b>	<b>\$ 0.00000</b>
<b>Inc. Dist.</b>	<b>\$ 0.019682</b>

**December 31, 2009**

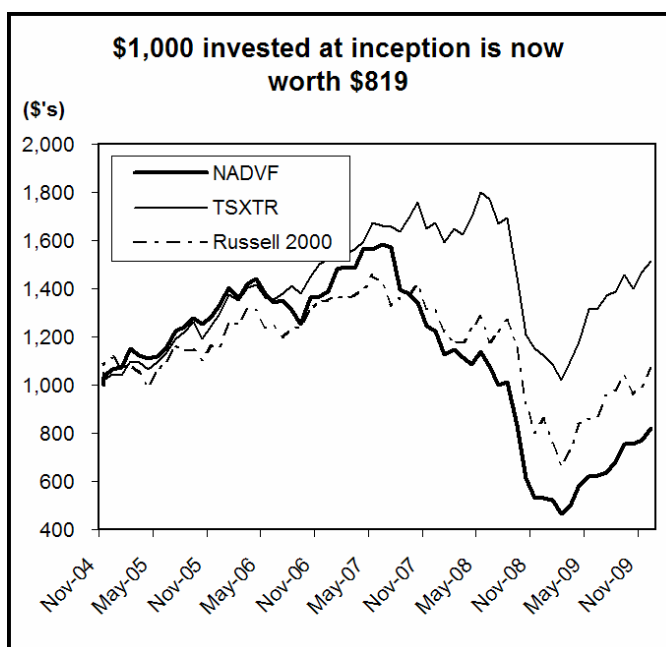
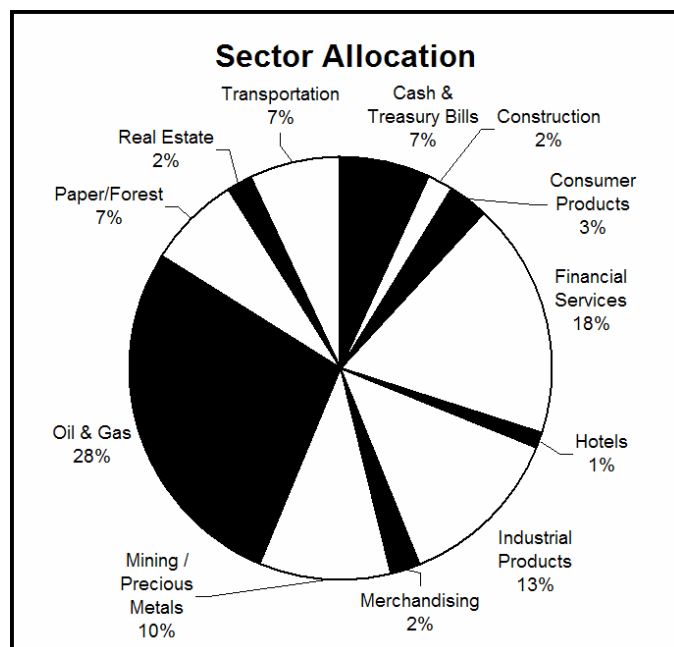
### Objective

ABC North American Deep-Value Fund searches out fundamentally undervalued Canadian and American stock exchange-listed common shares. This closed-end fund has maximum flexibility to invest in a diversified mix of deep value securities. There is, however, a particular emphasis on micro-caps. The country and asset mix, as well as currency exposure, can vary and has no set limits. The portfolio, ordinarily, will have a mix of 40 to 50 holdings. This fund closed to new money on November 1, 2005.

### *Performance of the Fund vs. U.S. and Canadian Benchmarks*

	Annualized Compounded Rates of Return				Annual Returns				
	ABC NADV (%)	Russell 2000 (%)	Dow Jones Industrials (%)	TSXTR** (%)	ABC NADV (%)	Russell 2000 (%)	Dow Jones Industrials (%)	TSXTR** (%)	
1 Month	6.08	7.88	0.80	2.93	2005	25.49	3.32	-0.61	24.13
Q4 2009	8.60	3.49	7.37	3.86	2006	3.92	17.00	16.29	17.26
YTD	54.07	25.22	18.82	35.05	2007	-11.81	-2.75	6.43	9.83
1 Year	54.07	25.22	18.82	35.05	2008	-56.62	-34.80	-33.84	-33.00
2 Year	-18.25	-9.64	-11.34	-4.88	2009	54.07	25.22	18.82	35.05
3 Year	-16.16	-7.40	-5.77	-0.21					
5 Year	-5.13	-0.82	-0.67	7.66					
Since Inception*	-3.86	1.34	0.76	8.35					

\*Inception date for the Fund was November 1, 2004  
 \*\*S&P/TSX Composite Total Return Index



# ABC FUNDS

## ABC North American Deep-Value Fund, Statement of Investment Portfolio December 31st, 2009

all dollar amounts in thousands (cdn\$)

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>CASH -- 7.00%</b>			
103,369	Cash - CAD	103	103
54,503	UBS Cash In Action Fund - CAD	5,450	5,450
150,611	RT CAP Cash In Action Fund - USD	160	158
<b>TOTAL CASH</b>		<b>5,714</b>	<b>5,712</b>
<b>COMMON STOCKS -- 93.00%</b>			
<b>CANADIAN STOCKS -- 81.02%</b>			
<b>OIL &amp; GAS / ENERGY -- 22.96%</b>			
5,000,000	Alange Energy Corp.	1,750	3,150
1,050,000	Anderson Energy Ltd.	4,630	1,218
1,000,000	Blackpearl Resources	4,500	2,540
300,000	Daylight Resources Trust	2,462	3,057
1,200,000	Midway Energy Ltd.	2,280	3,564
1,300,000	Open Range Energy Corp.	2,405	2,834
150,000	Precision Drilling Trust	2,146	1,148
1,327,200	Twin Butte Energy Ltd.	3,987	1,221
<b>TOTAL</b>		<b>24,160</b>	<b>18,732</b>
<b>MINING/PRECIOUS METALS -- 9.44%</b>			
700,000	Argonaut Gold Inc.	2,100	2,450
350,000	Argonaut Gold Inc., warrants	0	168
1,000,000	Energold Drilling Corp.	1,937	2,550
2,747,808	Phoenix Coal Corp.	3,386	852
1,000,000	Polaris Minerals	4,556	1,680
37,500	Polaris Minerals, warrants	4	6
<b>TOTAL</b>		<b>11,983</b>	<b>7,706</b>
<b>INDUSTRIAL PRODUCTS -- 12.83%</b>			
500,000	ATS Automation Tooling Systems Inc.	2,223	3,740
400,000	Canam Group Inc.	4,205	2,852
480,000	Heroux-Devtech Inc.	2,414	2,400
725,000	Terravest Income Fund	5,098	1,479
<b>TOTAL</b>		<b>13,941</b>	<b>10,471</b>
<b>CONSUMER PRODUCTS -- 2.71%</b>			
250,000	High Liner Foods Inc., Class A	1,635	2,000
1,402,500	Jig-A-Loo World	1,148	210
<b>TOTAL</b>		<b>2,783</b>	<b>2,210</b>
<b>REAL ESTATE -- 2.19%</b>			
1,868,500	Huntingdon Real Estate Trust	3,376	925
975,000	Lakeview Hotel Real Estate Trust	3,209	295
831,050	Northampton Group	888	565
<b>TOTAL</b>		<b>7,473</b>	<b>1,785</b>

exchange rate used is 1.0483498973

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>PAPER &amp; FOREST PRODUCTS -- 7.28%</b>			
625,000	Fortress Paper Ltd.	4,873	5,938
<b>TOTAL</b>		<b>4,873</b>	<b>5,938</b>
<b>CONSTRUCTION -- 1.84%</b>			
100,000	Aecon Group Inc.	1,099	1,500
<b>TOTAL</b>		<b>1,099</b>	<b>1,500</b>
<b>FINANCIAL SERVICES -- 18.36%</b>			
300,000	Dundee Corp., Class A	3,279	3,639
200,000	Equitable Group Inc.	3,747	4,250
1,750,000	GC Global Capital	1,898	1,024
115,000	Genworth MI Canada Inc.	2,370	3,117
125,000	Onex Corp.	3,134	2,950
<b>TOTAL</b>		<b>14,427</b>	<b>14,979</b>
<b>TRANSPORTATION -- 3.42%</b>			
225,000	Westjet Airlines Ltd.	2,515	2,788
<b>TOTAL</b>		<b>2,515</b>	<b>2,788</b>
<b>U.S. STOCKS -- 11.98%</b>			
<b>HOTELS -- 1.07%</b>			
350,000	Great Wolf Resorts Inc.	4,140	870
<b>TOTAL</b>		<b>4,140</b>	<b>870</b>
<b>MERCHANDISING -- 2.19%</b>			
400,000	Cost Plus Inc.	4,074	428
325,000	J. Alexander's Corp.	3,043	1,359
<b>TOTAL</b>		<b>7,116</b>	<b>1,787</b>
<b>TRANSPORTATION -- 3.25%</b>			
137,500	Babcock & Brown Air Ltd. ADS	3,168	1,296
140,000	Seaspan Corp.	3,649	1,353
<b>TOTAL</b>		<b>6,817</b>	<b>2,649</b>
<b>OIL &amp; GAS -- 5.47%</b>			
62,500	Pioneer Natural Resources	3,619	3,156
1,250,000	Tuscany Intl. Drilling	1,407	1,310
1,250,000	Tuscany Intl. Drilling, warrants	0	0
<b>TOTAL</b>		<b>5,026</b>	<b>4,467</b>
<b>TOTAL COMMON STOCK</b>		<b>106,354</b>	<b>75,881</b>
<b>TOTAL PORTFOLIO</b>		<b>112,068</b>	<b>81,593</b>

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# ABC FUNDS

## ABC Dirt-Cheap Stock Fund (ABC DCSF)

<b>NAVPS</b>	<b>\$ 7.1003</b>
<b>C.G. Dist.</b>	<b>\$ 0.00000</b>
<b>Inc. Dist.</b>	<b>\$ 0.040870</b>

December 31, 2009

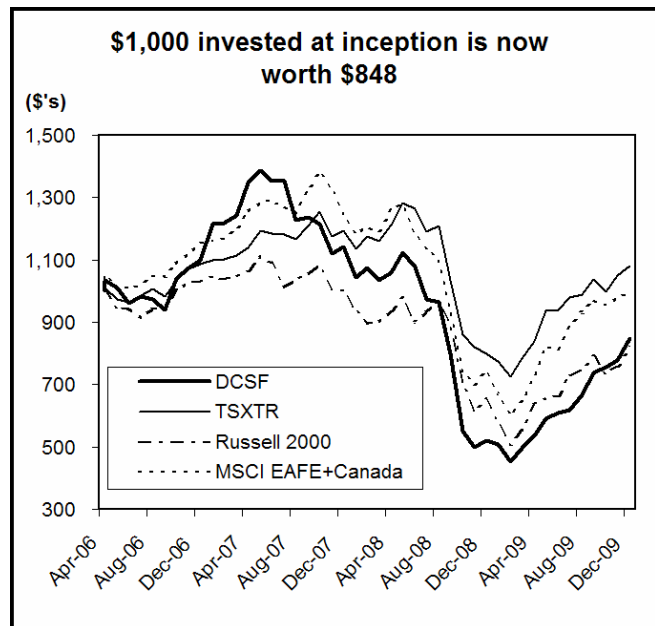
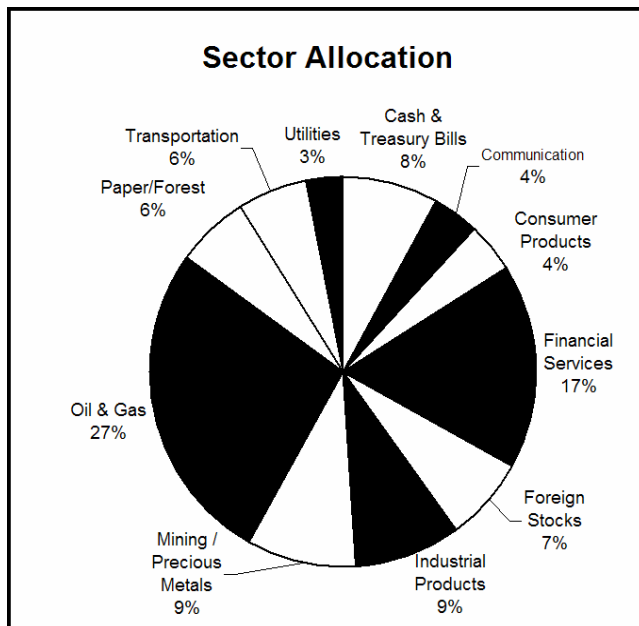
### Objective

ABC Dirt-Cheap Stock Fund is a "go-anywhere in the world" equity fund with unlimited investment flexibility. This deep-value fund has no company-size investment restrictions, and, as a result, can opportunistically purchase overlooked, undervalued and less liquid micro-capitalization stocks. We expect this fund to have a mix of 40-60 holdings comprised of Canadian, U.S. as well as Far East, Australian and European equities. The fund closed to new money on September 1, 2006.

### Performance of the Fund vs. U.S. and Canadian Benchmarks

	Rates of Return				Annual Returns				
	ABC DCSF	Russell 2000	TSXTR**	MSCI EAFE***	ABC DCSF	Russell 2000	TSXTR**	MSCI EAFE***	
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	
1 Month	9.10	7.88	2.93	1.61	2007	3.79	-2.75	9.83	8.08
Q4 2009	14.89	3.49	3.86	2.49	2008	-54.34	-34.80	-33.00	-40.69
YTD	62.87	25.22	35.05	34.39	2009	62.87	25.22	35.05	34.39
1 Year	62.87	25.22	35.05	34.39					
2 Year	-13.77	-9.64	-4.88	-10.72					
3 Year	-8.27	-7.40	-0.21	-4.85					
Since Inception*	-4.39	-5.35	2.10	-0.17					

\*Inception date for the Fund was April 1, 2006  
 \*\*S&P/TSX Composite Total Return  
 \*\*\*MSCI EAFE + Canada US\$



# ABC FUNDS

## ABC Dirt-Cheap Stock Fund, Statement of Investment Portfolio December 31st, 2009

all dollar amounts in thousands (cdn\$)

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>CASH -- 7.60%</b>			
6,344,008	Cash - CAD	6,344	6,344
90,933	Cash - USD	92	95
11	Cash - AUD	0	0
<b>TOTAL CASH</b>		<b>6,436</b>	<b>6,439</b>

**COMMON STOCKS -- 92.40%**

**CANADIAN STOCKS -- 79.11%**

**OIL & GAS / ENERGY -- 25.15%**

5,000,000	Alange Energy Corp.	1,750	3,150
1,000,000	Anderson Energy Ltd.	3,792	1,160
800,000	Blackpearl Resources	3,600	2,032
300,000	Daylight Resources Trust	2,454	3,057
2,250,000	Ithaca Energy Inc.	4,407	3,308
1,750,000	Midway Energy Ltd.	2,334	5,198
1,275,000	Open Range Energy Corp.	2,359	2,780
663,600	Twin Butte Energy Ltd.	1,866	611
<b>TOTAL</b>		<b>22,561</b>	<b>21,294</b>

**REAL ESTATE -- 0.48%**

500,000	Lanesborough Real Estate Trust	2,245	405
<b>TOTAL</b>		<b>2,245</b>	<b>405</b>

**MINING / PRECIOUS METALS -- 9.19%**

700,000	Argonaut Gold Inc.	2,100	2,450
350,000	Argonaut Gold Inc., warrants	0	168
1,000,000	Energold Drilling Corp.	1,880	2,550
2,747,808	Phoenix Coal Corp.	3,386	852
1,000,000	Polaris Minerals Corp.	1,600	1,680
500,000	Polaris Minerals Corp., warrants	0	85
<b>TOTAL</b>		<b>8,966</b>	<b>7,785</b>

**INDUSTRIAL PRODUCTS -- 9.23%**

500,000	ATS Automation Tooling Systems Inc.	2,328	3,740
400,000	Canam Group Inc.	3,977	2,852
600,000	Terravest Income Fund	4,337	1,224
<b>TOTAL</b>		<b>10,641</b>	<b>7,816</b>

**MERCHANDISING -- 0.00%**

2,157,900	CY Oriental Holdings	2,411	0
799,998	CY Oriental Holdings, warrants	0	0
<b>TOTAL</b>		<b>2,411</b>	<b>0</b>

**CONSUMER PRODUCTS -- 3.80%**

1,000,000	Asia Bio-Chem Group Co.	1,200	1,220
250,000	High Liner Foods, Inc., Class A	1,635	2,000
<b>TOTAL</b>		<b>2,835</b>	<b>3,220</b>

exchange rate used is 1.0483498973

No. Of Shares	Description	Total Cost (\$)	Market Value (\$)
<b>PAPER/FOREST PRODUCTS -- 5.61%</b>			
500,000	Fortress Paper	3,867	4,750
<b>TOTAL</b>		<b>3,867</b>	<b>4,750</b>

**COMMUNICATIONS -- 4.05%**

1,000,000	Com Dev International Ltd.	2,962	3,430
<b>TOTAL</b>		<b>2,962</b>	<b>3,430</b>

**FINANCIAL SERVICES -- 15.23%**

300,000	Dundee Corp., Class A	2,174	3,639
150,000	Equitable Group Inc.	2,478	3,188
115,000	Genworth MI Canada Inc.	2,184	3,117
125,000	Onex Corp.	3,138	2,950
<b>TOTAL</b>		<b>9,974</b>	<b>12,893</b>

**UTILITIES -- 3.26%**

750,000	Maxim Power Corp.	1,902	2,764
<b>TOTAL</b>		<b>1,902</b>	<b>2,764</b>

**TRANSPORTATION -- 3.11%**

212,500	Westjet Airlines Ltd.	2,378	2,633
<b>TOTAL</b>		<b>2,378</b>	<b>2,633</b>

**U.S. STOCKS -- 6.75%**

**OIL & GAS -- 1.55%**

1,250,000	Tuscany Int'l Drilling	1,388	1,310
1,250,000	Tuscany Int'l Drilling, warrants	0	0
<b>TOTAL</b>		<b>1,388</b>	<b>1,310</b>

**TRANSPORTATION -- 2.90%**

137,500	Babcock & Brown Air Ltd. ADS	3,168	1,296
120,000	Seaspan Corp.	2,984	1,160
<b>TOTAL</b>		<b>6,152</b>	<b>2,456</b>

**FINANCIAL SERVICES -- 2.30%**

62,500	Kansas City Life Insurance Co.	3,514	1,949
<b>TOTAL</b>		<b>3,514</b>	<b>1,949</b>

**FOREIGN STOCKS -- 6.54%**

115,508	Challenger Wine Trust	75	32
4,042,500	Harmony Asset Ltd.	2,830	2,708
300,000	Natuzzi SpA	2,369	1,016
2,726,000	Playmates Toy Holdings Ltd.	3,818	910
2,672,908	Thakral Holdings Group	1,646	869
<b>TOTAL</b>		<b>10,737</b>	<b>5,536</b>

**TOTAL COMMON STOCK 92,534 78,241**

**TOTAL PORTFOLIO 98,969 84,680**

## Investment Success: Being Different from the Pack

*In January 2007, the Yale School of Management published How Active is your Fund Manager? The study found that the more different a fund is from its benchmark, the more likely it was to outperform. The most active stock pickers created value for investors, while closet indexers tended to destroy value.*

*Economically, these results suggest that the most active diversified stock pickers and concentrated stock pickers have enough skill to generate alphas that remain positive even after fees and transaction costs.*

Jonathan Ratner  
Financial Post  
January 3, 2010

I have never been a fan of portfolio indexing. Truth be told, constructing a securities portfolio which will closely mirror a certain benchmark has always struck me as being a cop-out, an easy way out. Furthermore, indexing, to provide investment returns so as to closely track a benchmark, in my opinion, implies that the portfolio manager doesn't have the ability or confidence to use his experience, good judgment and analytical skills to outperform a certain investment yardstick.

Interestingly, we are in an industry that evolves around performance. Successful investing thrives on free-thinking decisions, economic and business challenges and the element of a portfolio manager's self-satisfaction. The goal of most investment professionals is investment excellence. Furthermore, the task to carry out the significant duties and responsibilities, while stressful, can be incredibly exciting, invigorating and both materially and psychologically rewarding. In consequence, portfolio indexing, whereby a majority of portfolio managers will try to mirror a widely accepted index such as the TSX 300, the Dow Jones 30

Industrials or the S&P 500, in my opinion, takes away the incentive to be different from a pack of highly competitive investment managers.

Clearly, if an analyst/portfolio manager is quite able and has the ability to ferret out undervalued stocks from a heap of diverse equities, the manager should be encouraged to utilize these skills. Indexing, in my opinion, discourages an innate desire by an individualist manager to outperform by taking the risk to be different from the crowd. This point is notable since the beauty of the investment industry is that it largely encourages innovation, intellectual skill and proactivity. Consequently, as indicated by this Yale study, skillful stock pickers should be encouraged. Admittedly, while there will be periods of significant relative underperformance against an index benchmark, we believe that, in the long run, the increased risk of being different is well worth the meaningful investment rewards.

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